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Introduction

In accordance with the City Auditor's 2003-04 Workplan, we have audited the Concentrated Code Enforcement Program (CCEP) of the Department of Planning, Building, and Code Enforcement. We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Scope and Methodology section of this report.

The City Auditor's Office thanks Code Enforcement and the Department of Parks, Recreation, and Neighborhood Services (PRNS) staff for giving their time, information, insight, and cooperation during the audit process.

Background

The Concentrated Code Enforcement Program (CCEP) provides code enforcement services to low-to-moderate income areas of the City. The CCEP provides reactive complaint response and investigations of complaints concerning violations of the Municipal Code. In addition to Code Enforcement inspections, Code Enforcement utilizes other funding resources to conduct Neighborhood Clean-ups and participate in neighborhood community meetings.

The CCEP receives Community Development Block Grant (CDBG) funding. The CDBG is a 1974 Federal grant program that provides assistance in support of community development activities. The current CDBG statute requires that each funded activity meets one of three national objectives:

1. Benefiting low- and moderate-income persons,
2. Preventing or eliminating slums or blight, or
3. Meeting urgent needs that pose a serious and immediate threat to the health or welfare of the community when other financial resources are not available to meet such needs.

The United States Department of Housing and Urban Development (HUD) provides CDBG funding to San Jose. The Grants Section of Parks, Recreation, and Neighborhood Services (PRNS) administers the block grant. The CDBG Steering Committee makes CDBG funding recommendations for the City Council's approval. The CCEP began receiving CDBG funding in 1987-88. Exhibit 1 highlights the CDBG revenue and CCEP expenditures for 2000-01 to 2002-03.

Exhibit 1 2000-01 To 2002-03 CDBG Revenue And CCEP Expenditures

	2000-01	2001-02	2002-03
CDBG Revenue	\$12,559,000	\$12,996,000	\$12,757,000
CCEP Expenditures	\$623,970	\$767,570	\$825,268
CCEP Expenditures As A Percent Of CDBG Revenue	5%	5.9%	6.5%

Source: City of San Jose Comprehensive Annual Financial Reports and Financial Management System.

Projected 2003-04 CDBG revenue is **\$12,432,000**, and the CCEP proposed expenditure budget is **\$884,396**, or 7.1 percent of total CDBG revenue. CCEP staffing includes a .5 Supervisor Full-time Equivalent (FTE), six Code Enforcement Inspector FTEs, and one Office Specialist FTE.

Audit Objective, Scope, And Methodology

Our audit objective was to identify the operational threats facing the CCEP and the controls that the Administration has in place to prevent, eliminate, or minimize these threats.

We reviewed all available 2000-01 to 2003-04 Code Enforcement inspection data. We interviewed staff from Code Enforcement, PRNS, and spoke with officials from the US Department of Housing and Urban Development.

Additionally, we conducted limited testing of the Code Enforcement System (CES) to test data reliability.

Major Accomplishments Related To This Program

In Appendix B, the Deputy Director of Code Enforcement informs us of the CCEP's accomplishments.

Finding I

Concentrated Code Enforcement Program Management Needs To Enhance Its Ability To Control Program Threats

The CCEP provides code enforcement inspection services to low-to-moderate income areas using Federal Community Development Block Grant (CDBG) funds. Code Enforcement also uses other resources, such as the Targeted Neighborhood Clean-up Program, in CDBG areas as matching resources. In 2002-03, Code Enforcement changed how it provides CCEP services from a proactive to a reactive basis. We found that:

- Code Enforcement and PRNS have not clearly communicated the new role of the CCEP;
- PRNS does not retain adequate CCEP documentation or appropriately monitor the CCEP to ensure full compliance with CDBG requirements;
- Code Enforcement has not measured the impact that CCEP and other activities have had on blight in Strong Neighborhood Initiative areas; and
- Code Enforcement needs to improve its data systems and documentation for the CCEP.

In addition, based on our Risk and Vulnerability Assessment of the CCEP, we identified several threats for which Code Enforcement had weak or no corresponding controls in place.

In our opinion, Code Enforcement and/or PRNS should

- 1) clearly and consistently communicate the current role of the CCEP,
- 2) adequately document that the CCEP is in full compliance with OMB A-87 documentation requirements,
- 3) develop a documentation checklist of required documents,
- 4) improve its ability to evaluate grant subrecipients,
- 5) conduct a comprehensive blight survey for SNI areas every five years,
- 6) continue to improve its internal controls to address identified program threats, and
- 7) update and improve CES information.

CDBG Eligibility And Program History

The CCEP began in 1987 as a proactive community-focused program targeting specific low-to-moderate income residential areas. Generally, the program targeted two neighborhoods for a six-month program. The CCEP included an education

component to 1) educate residents about building and zoning codes, 2) encourage neighborhood association development, and 3) promote the use of other City services to arrest deterioration in targeted neighborhoods.

CDBG regulations provide specific eligibility requirements. CCEP serves low-to-moderate income areas under the CDBG regulations.

CDBG funds Code Enforcement inspectors and ancillary costs in order to respond to and resolve citizen-identified code violations. The regulations allow this activity in low-to-moderate, slum/blighted areas, but other resources must also be used to arrest deterioration in addition to the CDBG-funded Code Enforcement inspections.

The CDBG regulations set a standard that CDBG funds, together with other public and/or private resources, *may be expected* to arrest the deterioration of the areas that the CCEP serves. As a result, coordination of CCEP services with other programs and services should reasonably meet the standard that the services together arrest deterioration.

According to a PRNS official, PRNS reports the CCEP to HUD as solely a low-to-moderate income program in order to maintain compliance with 24 CFR 570.200(a)(3). This regulation requires the City to spend not less than 70 percent of all of its CDBG funds on low-to-moderate income areas. According to PRNS, the City needs the CCEP to serve only low-to-moderate income areas in order to satisfy the overall 70 percent Citywide requirement.

**Code Enforcement
Changed How It
Provides CCEP
Services To Low-
To-Moderate
Income
Neighborhoods
From A Proactive
To A Reactive Basis**

In 2002-03, Code Enforcement made fundamental changes to the focus of the CCEP. The following exhibit shows how Code Enforcement changed its CCEP in 2002-03 to address code violations, target areas for inspection, coordinate other public/private services, and measure program performance.

**Exhibit 2 Comparison Of How Code Enforcement Provides
CCEP Services Before And After 2002-03**

	Pre 2002-03 CCEP	Since 2002-03 CCEP
<u><i>Code Violations</i></u>	Inspectors proactively identify all exteriorly visible code violations. Interior violations identified through voluntary home inspections or complaints received from residents.	Inspectors reactively respond to complaints received from residents.
<u><i>Targeted Areas</i></u>	Generally, all homes in a small targeted neighborhood for six months of extensive service.	Selected homes in all CDBG-eligible areas.
<u><i>Other Services</i></u>	Coordination of other services in small neighborhoods.	Services provided in a larger area (such as SNI area).
<u><i>Program Performance</i></u>	Blight survey conducted at beginning and end of six-month period to identify impact of CCEP services.	No blight survey conducted. Some measures for outcomes and outputs are collected.

Source: Code Enforcement.

According to the Deputy Director of Code Enforcement, “changes to the CCEP Program were undertaken in July 2001 because of the implementation of the Strong Neighborhoods Initiative. The CCEP was changed to avoid duplication of the SNI Driveway Team proactive front yard blight enforcement efforts and to provide additional enforcement resources to respond to resident complaints of substandard housing and structural conditions, illegal occupancies and other enforcement issues in low-income neighborhoods. These changes expanded the services of the CCEP from two small neighborhoods averaging 800 to 900 houses per year to reactive code enforcement response to more than 1,500 properties per year. The SNI Driveway Team provides proactive code enforcement

sweeps to approximately 20,000 properties per year. Coordination of other services is provided through the SNI program to 20 specific neighborhoods.”

**Code Enforcement
And PRNS Have
Not Clearly
Communicated The
New Role Of The
CCEP**

Code Enforcement and PRNS have not clearly and consistently communicated the new CCEP role and purpose. While the summarized CCEP changes shown above represent a fundamental change in how inspectors address violations in target areas, Code Enforcement and PRNS have not communicated those changes in several important documents.

For example, the current 2003-04 Adopted Operating Budget describes the CCEP as a program that provides “*proactive, comprehensive enforcement of various health, safety, and housing codes in selected low- and moderate-income single family and duplex neighborhoods.*” Additionally, the 2003-04 Exempt Activities Environmental Review document states that the CCEP is a neighborhood revitalization program designed to prevent or eliminate slum and blighted conditions through proactive code enforcement activities to correct code violations, community meetings and trash removal. Other documentation does not describe the CCEP as either a proactive or reactive inspection program. In our opinion, Code Enforcement and PRNS should update existing documentation to clearly and consistently describe the program as it exists today.

We recommend that Code Enforcement and PRNS:

Recommendation #1:

- **Update existing documentation to clearly and consistently describe the current role of the CCEP program. (Priority 3)**

**PRNS Does Not
Retain Adequate
CCEP
Documentation**

The documentation of CCEP activities is inconsistent and incomplete. PRNS and Code Enforcement maintain separate project files for the CCEP. PRNS administers the CDBG for the City of San Jose. Under CDBG regulations, PRNS is responsible for ensuring that CDBG funds are used in accordance with all requirements. The use of Code Enforcement as a subrecipient does not relieve PRNS of this responsibility. Our review of 2001-02 to 2003-04 CCEP project files indicates that neither PRNS nor Code Enforcement filed CCEP-related documentation consistently or completely.

During our review of CCEP project files, we found that CCEP documentation does not satisfy certain CDBG requirements. CDBG regulations indicate that PRNS must 1) maintain records demonstrating that the CCEP is CDBG-eligible, 2) have a signed grant agreement between PRNS and Code Enforcement including program description, budget, and required reports, and 3) prepare a semi-annual certification of personnel costs in accordance with the Office of Management and Budget Circular A-87 (OMB A-87). Adequate documentation is necessary to demonstrate that the City is in full compliance with CDBG requirements.

Current CCEP documentation does not clearly show how CCEP resources and other public/private resources are used to address the deterioration in CDBG-eligible areas. According to HUD regulations, the CCEP remains an eligible activity if the City uses CDBG funds to fund Code Enforcement activities in CDBG-eligible areas and uses other resources (or services) to reasonably arrest deterioration in low-to-moderate income areas.

PRNS should ensure that it has adequate documentation to articulate how the CCEP and other resources can be reasonably expected to arrest deterioration in low-to-moderate income areas. However, the lack of adequate written, verifiable documentation showing reasonable coordination of the CCEP with other City resources to address deterioration in low-to-moderate income areas increases the risk that the City can not demonstrate full compliance with CDBG regulations.

We also noted that the CCEP does not document staffing costs in accordance with CDBG regulations. Specifically, CDBG regulations require a semi-annual report of CDBG-funded staff in accordance with the Office of Management and Budget Circular A-87. OMB A-87 requires a strict semi-annual accounting of every fully-funded CDBG employee. In addition, the employee and the employee's supervisor must sign a certification in order to fully comply with CDBG regulations. CCEP employees and supervisors are not signing the required certifications. In our opinion, PRNS should ensure that CCEP employees and supervisors are in full compliance with OMB A-87 requirements.

*CCEP Project Files
Are Not Completely
And Consistently
Maintained*

During our review of PRNS and Code Enforcement files, we noted several inconsistencies in program documentation from 2001-02 to 2003-04.

Specifically, of the three yearly PRNS project files we reviewed, only 2001-02 included a signed CDBG Eligibility Determination form. The CDBG Eligibility Determination form documents the activities that qualify the CCEP for CDBG funding. Eligibility Determination forms for 2002-03 and 2003-04 are not signed and dated to indicate when PRNS conducted the eligibility review. As a result, we cannot verify who completed the forms or when they were actually completed. The CDBG Eligibility project evaluation helps ensure that CCEP activities remain eligible for CDBG funding.

We also found that the CCEP project files do not consistently have documentation to substantiate approval for expense, personnel, and project goals. The documentation for expense, personnel, and project goals requires approval signatures from both a Code Enforcement and a CDBG representative. We found that, while 2003-04 documents included the necessary signatures, 2001-02 and 2002-03 project files did not include such documentation.

Additionally, we found that a comprehensive checklist indicating the documents to retain in the project files does not exist. In our opinion, PRNS and Code Enforcement should establish and maintain a complete and up-to-date checklist of required documentation to be retained. The checklist will improve the consistency and completeness of CCEP project files and provide a guideline for reviewing source documentation during PRNS monitoring visits.

We recommend that PRNS:

Recommendation #2

- **Ensure that the CCEP is in full compliance with OMB A-87 documentation requirements. (Priority 2)**

We recommend that PRNS:

Recommendation #3

- **Develop a comprehensive and up-to-date checklist of required CCEP documentation and the location where documentation should be retained. (Priority 3)**

PRNS Does Not Appropriately Monitor The CCEP To Ensure Full CDBG Compliance

PRNS policies and procedures require a monitoring process for each funded project. The primary purpose of the monitoring process is to assess progress in meeting the goals identified in the CCEP grant and to provide the basis for reports to the CDBG Steering Committee and the City Council on the achievement of the project's goals and objectives. CCEP project files do not consistently include documents which substantiate or verify the accuracy of performance reports and evidence that CCEP activity was restricted to CDBG-eligible areas. For example, the Code Enforcement Community Improvement Program includes performance information and a listing of cases that substantiate the performance information. In our opinion, including the cases CCEP inspectors handled and the corresponding census tracts will strengthen PRNS's ability to verify the accuracy of its performance reports to the CDBG Steering Committee and the City Council.

The PRNS project files do not consistently or accurately maintain summaries or results for monitoring visits. During our review of the 2001-02 PRNS project files we could not locate a monitoring visit summary. The 2002-03 project files did include a monitoring visit summary but some of the information was erroneous. The 2002-03 summary indicates that the CCEP retains satisfactory documentation for male/female, ethnicity/race, and female head of household. The 2002-03 summary, that a PRNS analyst signed, also indicates that these files were in order. We did not identify corroborating information for these summaries in either PRNS or Code Enforcement project files. In our opinion, PRNS should conduct a general review of its monitoring process and establish appropriate controls to improve its ability to evaluate grant subrecipients.

We recommend that PRNS:

Recommendation #4

- **Conduct a general review of its monitoring process and establish appropriate controls to improve its ability to evaluate grant subrecipients. (Priority 2)**

Code Enforcement Has Not Measured The Impact That The CCEP And Other Activities Have Had On Blight In Strong Neighborhood Initiative Areas

The CCEP does not measure the long term impact of code enforcement efforts in SNI areas. With the pre-2002-03 CCEP, Code Enforcement conducted a thorough blight survey of the small target area before and after the CCEP as a means to measure the impact of CCEP services. This survey measured the reduction in blight on a street-by-street basis. However, Code Enforcement no longer conducts a blight survey. Instead, Code Enforcement developed specific CCEP output and outcome measures:

- Number of inspections/reinspections;
- Number of Clean-ups;
- Number of community meetings; and
- Percent of code violations resolved within 90 days of the first inspection.

The new CCEP measures do not provide a basis for comparing the impact of Code Enforcement efforts on the level of blight in the SNI area. A 2002 SNI Preliminary Report identified over 64,000 code violations in the SNI target area. Current CCEP performance measures track the number of inspections, clean-up events, community meetings, and Code Enforcement's efficiency in addressing identified code violations. The 2003-04 Operating Budget includes performance measures gauging residents' perceptions of neighborhood conditions based on resident surveys. However, Code Enforcement no longer conducts a comprehensive blight survey identifying blight on a street-by-street basis. In our opinion, Code Enforcement should conduct a comprehensive blight survey, similar to the 2002 SNI Preliminary Report, every five years to measure the long term impact of Code Enforcement efforts in SNI areas.

We recommend that Code Enforcement:

Recommendation #5

- **Conduct a comprehensive blight survey of SNI areas every five years beginning in 2007. (Priority 3)**

Based Upon The City Auditor's Risk Assessments, Code Enforcement Agreed To Develop Formal Procedures To Improve Its Internal Controls

The purpose of the City Auditor's Risk Assessment process is to identify the potential threats facing the program or operation under audit and to identify the controls or procedures the City has in place to prevent, eliminate, or minimize the associated potential threats. The threats we identified relate to 1) compliance with laws, rules, regulations, procedures, and policies; 2) economy; 3) efficiency; and 4) effectiveness. Our Risk Assessment of the CCEP revealed that it had inadequate and/or undocumented procedures. Specifically, during the Risk Assessment phase of our audit we identified nine specific potential threats to the CCEP. Of these nine potential threats, we found that Code Enforcement had adequate controls for two threats, no controls in place for three threats, and weak controls in place for four threats. The City Auditor's Risk Assessment process identifies the potential threats to a program. We should note that a threat does not mean that something has actually occurred. The City Auditor's Office uses threats to access the audited entity's system of internal controls and to develop its audit programs. The following list highlights the nine potential threats we identified during our audit and our assessment of the internal controls Code Enforcement has in place to address those threats.

Exhibit 3 Internal Control Assessment Of The Nine Potential Threats To The CCEP

Potential Threats	Internal Control Assessment¹
The CCEP does not comply with all applicable CDBG regulations.	Weak
The new form of the CCEP does not meet the Federal criteria as an eligible CDBG program.	Weak
Matching funds (matches against CDBG) are not utilized in CDBG-eligible areas.	No Controls
Code Enforcement has not defined or established all CDBG-eligible areas.	Weak
The CCEP does not serve all applicable areas.	Weak
CDBG-funded staff are used for non-CDBG activities.	No Controls
Code Enforcement does not monitor or track CCEP accomplishments.	Adequate
The CCEP is not effective in achieving program outcomes.	Adequate
Performance measures are not reported accurately.	No Controls

After we shared our Risk and Vulnerability Assessment with Code Enforcement, it drafted written procedures to address the nine potential threats listed above. In our opinion, Code Enforcement's efforts are a step in the right direction, but additional work is necessary to strengthen these controls. Code Enforcement should continue to improve its internal controls over the potential threats we identified.

We recommend that Code Enforcement:

Recommendation #6

- **Continue to improve its internal controls to address identified program threats. (Priority 3)**

The Code Enforcement System (CES) Accuracy Can Be Improved

The CCEP relies on Code Enforcement System (CES) data to document CDBG-eligible areas to inspect. During our review, we found that the CES does not consistently present accurate census tract information. This inconsistency increases the risk that CCEP performance reports may not be representative of work performed in CDBG-eligible areas. For the CCEP, the inconsistent census tract information can lead to inspectors working in non CDBG-eligible areas, in violation of Federal CDBG regulations.

¹ See Appendix C.

We found that the CES census tract information for 19,386 of the 93,864 total Code Enforcement cases (20.7 percent) was either missing or invalid. The CES tracks the location of Code Enforcement cases by addresses and census tracts. The CES uses 2000 decennial US Census information to match addresses with the Federally-recognized boundaries of the US Census. The eligible areas include HUD-eligible low-to-moderate income areas and areas the City designated as slums and blighted.

In our opinion, inconsistent census tract information may lead to Code Enforcement assigning CDBG-funded inspectors to non-eligible areas. Code Enforcement should update CES census information to improve the accuracy and completeness of census tract information.

**Documentation Of
CCEP Services Can
Be Enhanced**

We also found that the CES does not clearly identify CCEP inspections. For the CCEP, CDBG-eligible areas include HUD defined low-to-moderate income areas and areas the City Council designates as slum/blighted. Code Enforcement's CES data system does not clearly identify CCEP inspection services in CDBG-eligible areas. Instead, the CES classifies Code Enforcement cases into programs such as General, Multiple Housing, and Vehicle Abatement. In 2000 and 2001, the CES specifically identified CCEP cases. However, beginning in 2002 Code Enforcement stopped specifying CCEP cases in the CES. As a result, the CES does not provide evidence of inspections conducted in CDBG-eligible areas by CDBG-funded inspectors.

CDBG regulations require that Code Enforcement appropriately document that all CDBG resources service CDBG-eligible areas. In our opinion, Code Enforcement can satisfy this requirement by adding to the CES a CCEP designation for eligible low-to-moderate income census tracts and maintaining written documentation showing CCEP work conducted in those eligible census tracts.

We recommend that Code Enforcement:

Recommendation #7

- **Update CES census tract information,**
- **Include the CCEP as a program designation in the CES, and**
- **Maintain written documentation showing CCEP work conducted in CDBG-eligible areas. (Priority 3)**

CONCLUSION

The CCEP provides code enforcement services to low-to-moderate income areas of the City using Federal CDBG funds. We found that Code Enforcement and PRNS need to improve certain aspects of program documentation and oversight. Specifically, Code Enforcement and/or PRNS should

- 1) clearly and consistently communicate the current role of the CCEP,
- 2) adequately document that the CCEP is in full compliance with OMB A-87 documentation requirements,
- 3) develop a documentation checklist of required documents,
- 4) improve its ability to evaluate grant subrecipients,
- 5) conduct a comprehensive blight survey for SNI areas every five years,
- 6) continue to improve its internal controls to address identified program threats, and
- 7) update and improve CES information.

RECOMMENDATIONS

We recommend that Code Enforcement and PRNS:

Recommendation #1

- **Update existing documentation to clearly and consistently describe the current role of the CCEP program. (Priority 3)**

We recommend that PRNS:

Recommendation #2

- **Ensure that the CCEP is in full compliance with OMB A-87 documentation requirements. (Priority 2)**

Recommendation #3

- **Develop a comprehensive and up-to-date checklist of required CCEP documentation and the location where documentation should be retained. (Priority 3)**

We recommend that PRNS:

- Recommendation #4**
- **Conduct a general review of its monitoring process and establish appropriate controls to improve its ability to evaluate grant subrecipients. (Priority 2)**

We recommend that Code Enforcement:

- Recommendation #5**
- **Conduct a comprehensive blight survey of SNI areas every five years beginning in 2007. (Priority 3)**
- Recommendation #6**
- **Continue to improve its internal controls to address identified program threats. (Priority 3)**
- Recommendation #7**
- **Update CES census tract information,**
 - **Include the CCEP as a program designation in the CES, and**
 - **Maintain written documentation showing CCEP work conducted in CDBG-eligible areas. (Priority 3)**

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